

Latin America still offers opportunities



2010 could be the year where the smaller Latin American markets emerge from behind the shadow of their larger counterparts, according to F&C Emerging Equities fund manager Urban Larson. Larson believes Peru, Chile and even Argentina have the potential to offer opportunities for investors, following signs of economic recovery and growth in most regions over recent months.

"While I remain positive on larger Latin markets such as Mexico and Brazil, I believe that the smaller countries could also present some exciting prospects. Chile was the top-performing Latin market in the fourth quarter 4 of 2009 and is recovering well from the recession.

Moreover, last month saw the election of the country's first centre-right president since the departure of Pinochet in 1990. New president Sebastián Piñera's pledge of structural reforms could be the catalyst which leads to higher long-term growth in the country," he commented.

Elsewhere, Larson is focussing on Peru and Argentina. He believes Argentina offers selective investment opportunities in companies that, while based there, do most of their business internationally, while Peru is particularly attractive as a v-shaped recovery takes hold after a period of disappointing growth between January and September 2009.

At stock level, Larson favours Chilean retailer Falabella, which is in a position to benefit from robust consumer spending in both Chile and Peru, along with Peru's

leading bank Credicorp and Argentine/Mexican steel producer Ternium. Larson concluded: "I remain positive on the long-term outlook for Latin America and believe the majority of the region's markets, small and large, can continue to offer very attractive opportunities for investors this year".

Republican win threatens Obama's 'green' plans

Republican Scott Brown's shock triumph for the US Senate seat in Massachusetts last month has led to concerns that President Obama's plans to take up the climate change bill this year may be halted. The win saw the Democrats lose their majority in the Senate, making it more difficult for President Obama to pass a bill to establish a 'cap and trade' scheme to cut greenhouse emissions by 17% from 2005 levels by 2020 and by 83% by 2050. The legislation also includes provisions to create alternative energy sources and cleaner technologies.

Consideration over measures to cap greenhouse gas emissions had been put off by Senate leaders until the Spring as the Democrats were deeply divided on how best to proceed. Nevertheless supporters of major climate change legislation reaffirmed their commitment to winning passage of a bill this year, despite the hostile environment.

Another source of negative newsflow was Germany's recent announcement of a potential 15-17% reduction in the subsidies it awards to solar-power projects. The uncertainty surrounding the impact of such a cut makes the positioning of the F&C Global Climate Opportunities Fund within solar energy even more crucial for manager Terry Coles.

"Excess manufacturing capacity is currently a key theme within the solar cell industry and this, combined with a potential cut in Germany's feed-in-tariff, is set to increase pressures on pricing even further, which will hurt the profit margins of many high cost European solar manufacturers", he commented.

As demand for solar installations remains elastic, Coles continues to position the portfolio in the most protected and critical parts of the value chain, which stand to benefit from volume growth as prices fall.

One example is STR Holdings, a solar module encapsulant manufacturer which should benefit from volume growth as demand for solar installations rises. Coles concluded: "The fund encompasses the entire spectrum of climate change opportunities and is currently diversified across nine climate related themes – indeed, direct solar exposure in the fund is currently less than 3%. While the Republican win is a short-term blow to US climate change legislation, we believe that over the long-term, growth will remain strong across the climate themes we have identified".

British Assets Trust beats benchmark in last quarter of 2009

British Assets Trust has outperformed its benchmark in the three months to 31 December 2009, posting a net asset value total return of 5.4% compared with the 4.9% return from a composite of 75% FTSE All-Share Index and 25% FTSE World ex UK Index.

The investment trust, managed by Julie Dent at F&C Investments in Edinburgh, saw its share price advance over the period, although its discount widened slightly from 10.4% to 11.7%.

British Assets Trust aims to produce capital growth and a rising income from a portfolio of UK and international shares. During the last financial year, it reorganised its overseas exposure into two segments, a global developed markets portfolio and a global emerging markets portfolio.

The trust holds many household names, its biggest holdings including BP, GlaxoSmithKline, Vodafone and Tesco. Just over 60% of the portfolio is currently invested in the UK, with 15% in the global developed portfolio, 10% in global emerging markets and 10% in corporate bonds.

Commenting on the outlook for markets, Dent said: "For now a slump back into recession is unlikely, inflation is likely to remain subdued and liquidity conditions remain favourable. Emerging markets should continue to outperform as the investment case based on superior long-term growth prospects remains compelling."

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